



CITY OF CALLAO, MISSOURI

YEAR ENDED JUNE 30, 1998

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 99-76  
September 16, 1999

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Callao, Missouri.**

---

The City of Callao operates a combined waterworks and sewerage system, and accepts cash, checks, and money orders for payment of water and sewer services. The City Collector is responsible for billing, receiving, recording, and depositing the monies collected. A review of receipt and deposit records indicated that at least \$5,561 of receipts from July 1997 through December 1998 were not deposited.

In addition, we were unable to determine the total amount of monies collected and undeposited for some time periods because certain records were missing including monthly reports of customers billed, deposit reports, billing stubs, meter readings, and back up information from the computer. As a result, additional monies could be missing.

The differences went undetected throughout this time period due to numerous internal control weaknesses, little or no independent review, and a lack of adequate record keeping.

**The city's \$1.85 property tax rate for 1998 exceeded the maximum authorized by state statutes.** State law provides that a city's tax levy shall not exceed one dollar for general municipal purposes except by a two-thirds vote, and only for 30 cents for a period of four years at a time. There is no documentation the additional levy (above one dollar) has ever been approved by a vote of the people.

In addition, the Board of Aldermen does not hold public hearings on proposed tax rates or prepare ordinances establishing annual tax rates. State law requires each governing body to hold at least one public hearing prior to approval of proposed tax rates so that citizens may be heard.

The city does not investigate large water losses reported on the City Collector's monthly report. During the year ended June 30, 1998, the City Collector reported a total of 1,102,470 gallons of water loss. The loss ranged from 7 to 22 percent per month. In addition, the city does not reconcile the number of gallons purchased to the number of gallons billed from their supplier.

There is no oversight or adequate segregation of duties related to the city's utility system. The City Collector performs all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, depositing money received, monitoring accounts for delinquencies, and initiating service shutoff orders.

(over)

YELLOW SHEET

The city's budgets for 1998 and 1999 were not complete and were prepared for only the Sewer Fund. Budgets were not prepared for the General Fund, the General Obligation Fund, the Debt Service Fund, the Repair and Replacement Fund, or the Water Deposit Fund.

The city has not obtained annual audits. The city's bond covenants and state law require annual audits of the combined waterworks and sewerage system.

In 1998 the city deposited \$36,159 in water user fees into the general fund. The bond restrictions required those revenues be deposited into a separate fund. Currently, the city deposits only the revenues from the sewer system into this fund.

The city has not filed an annual report of financial activity with the State Auditor's office since 1989. State law requires the city to file a financial report with the State Auditor's office annually.

CITY OF CALLAO, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-2
HISTORY AND ORGANIZATION .....	3-6
MANAGEMENT ADVISORY REPORT .....	7-25
SUMMARY OF FINDINGS .....	8-9

<u>Number</u>	<u>Description</u>	
1.	Missing Funds .....	10
2.	Water and Sewer System Procedures .....	11
3.	City Ordinances .....	14
4.	Budgets, Financial Reporting and Auditing .....	16
5.	Board Meetings, Minutes, and Policies .....	17
6.	Accounting Controls and Procedures .....	20
7.	General Fixed Asset Records and Procedures .....	24



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
City of Callao  
Callao, Missouri 63534

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Callao, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 1998. The objectives of this audit were to:

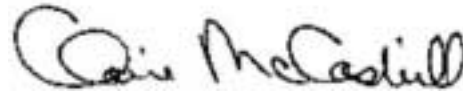
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for information purposes. This information was obtained from the city and was not subjected to auditing procedures applied during our audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the City of Callao, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill  
State Auditor

February 26, 1999 (fieldwork completion date)

## HISTORY AND ORGANIZATION

# CITY OF CALLAO, MISSOURI HISTORY AND ORGANIZATION

The city of Callao is located in Macon County. It was incorporated as a political subdivision in 1858. The population in 1990 was 332. The city government consists of a mayor and four-member Board of Aldermen. The four members are elected for two-year terms, one from each of the two wards each year. The mayor is elected for two years, presides over the Board of Aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 1998, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Compensation Earned for the Year Ended June 30, 1998</u>
Sammy Shoemaker, Jr., Mayor (1)	April 2000	\$ 0
William (Bill) Mott, Alderman (2)	April 1999	0
Robert A. Craigg, Alderman (3)	April 2000	0
Evelyn Miles, Alderwoman	April 2000	0
Hazel Mott, Alderwoman (4)	April 1999	0

## Other Principal Officials

Miona Denney, City Clerk/Treasurer (5)	\$3,000
Sheilla Mott, City Collector (6)	3,000
Lawrence Taylor, City Marshall	576
Phoebe Powell-Herrin, City Attorney (7)	240

- (1) Sammy Shoemaker resigned in January 1999. Thomas Sommerfelt was appointed as Mayor on February 8, 1999.
- (2) Robert Rowden was elected as alderman in April 1999. Robert Rowden resigned on May 10, 1999. Alex Watson was appointed on June 14, 1999.
- (3) Robert Craigg resigned in January 1999. Lila Petre was appointed as alderwomen on February 8, 1999.
- (4) Gordon Fleming was elected as alderman in April 1999.
- (5) Miona Denney resigned in August 1998. Judith Blakely was appointed as City Clerk from September 14, 1998 until November 2, 1998. Lorie Bufford served as Treasurer from September 14, 1998, until September 24, 1998, when Jayne Watson replaced her. Jayne Watson resigned and Antonia Watson served as temporary treasurer from October 15, 1998 to November 2, 1998. On November 2, 1998, Antonia Watson was appointed City Clerk/Treasurer.



- (6) Sheilla Mott resigned on February 8, 1999, and Mary Bartholomew was appointed.
- (7) The board voted to replace Phoebe Powell-Herrin with Jeff Elson as City Attorney on September 24, 1998. The board voted to hire James McConnell as City Attorney on January 15, 1999 upon Mr. Elson's resignation.

The city employs one part-time employee.

Assessed valuation and tax rate information for 1998 are as follows:

ASSESSED VALUATION

Real Estate	\$439,865
Personal Property	<u>278,828</u>
Total	<u>\$718,693</u>

TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$1.85
Debt Service	1.43

The city also has the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.01	None

A summary of the financial activity of the city of Callao for the year ended June 30, 1998, is presented on the next page.

Financial Activity for the Year Ended June 30, 1998

	General Account	Sewer Revenue Account	Meter Deposit Account	Sewer Construction Account	Sewer Repair and Replacement Account	Sewer Debt Service Account	General Obligation Bond Account	Total Accounts
<b>RECEIPTS</b>								
Property taxes	\$ 18,082	0	0	0	0	0	18,390	36,472
Motor vehicle taxes	12,945	0	0	0	0	0	0	12,945
Franchise taxes	7,507	0	0	0	0	0	0	7,507
Water sales	36,159	0	0	0	0	0	0	36,159
Sales taxes	6,346	0	0	0	0	0	0	6,346
Sewer sales	0	18,018	0	0	0	0	0	18,018
Meter deposits	0	0	2,000	0	0	0	0	2,000
State grant	0	0	0	52,500	0	0	0	52,500
Licenses	375	0	0	0	0	0	0	375
Interest	1,610	1,303	140	0	8	6	817	3,884
Court fines	405	0	0	0	0	0	0	405
Transfers in	627	0	0	0	2,100	1,500	0	4,227
Miscellaneous	7,130	23	34	0	0	0	0	7,187
Total Receipts	91,186	19,344	2,174	52,500	2,108	1,506	19,207	188,025
<b>DISBURSEMENTS</b>								
Water purchases	22,019	0	0	0	0	0	0	22,019
Payroll	12,728	5,135	0	0	0	0	0	17,863
Utilities	4,442	0	0	0	0	0	0	4,442
Loan payment	4,309	0	0	0	0	0	0	4,309
Fuel	519	0	0	0	0	0	0	519
Construction	1,911	0	0	74,802	0	0	0	76,713
Dog catchers	170	0	0	0	0	0	0	170
Streets	2,018	0	0	0	0	0	0	2,018
Insurance	1,838	0	0	0	0	0	0	1,838
Legal	240	0	0	0	0	0	0	240
Gravel	3,914	0	0	0	0	0	0	3,914
Equipment	23,648	0	0	0	0	0	0	23,648
Bond payment	0	5,880	0	0	0	0	14,797	20,677
Refunds of deposits	0	0	384	0	0	0	0	384
Transfer out	0	3,600	627	0	0	0	0	4,227
Miscellaneous	6,495	879	0	0	0	0	0	7,374
Total Disbursements	84,251	15,494	1,011	74,802	0	0	14,797	190,355
RECEIPTS OVER (UNDER) DISBURSEMENTS	6,935	3,850	1,163	-22,302	2,108	1,506	4,410	-2,330
CASH BALANCE, JULY 1, 1997	48,857	29,735	3,761	28,233	0	0	18,701	129,287
CASH BALANCE, JUNE 30, 1998	\$ 55,792	33,585	4,924	5,931	2,108	1,506	23,111	126,957

## MANAGEMENT ADVISORY REPORT

CITY OF CALLAO, MISSOURI  
SUMMARY OF FINDINGS

1. Missing Funds (pages 10-11)

At least \$5,561 in water and sewer payments and \$220 in dog license collections were not deposited to city accounts.

2. Water and Sewer System Procedures (pages 11-14)

The city does not investigate large water losses reported on the City Collector's monthly report. There is no oversight or adequate segregation of duties related to the city's utility system. The City Collector does not reconcile the meter deposit listing to the balance in the account. The method and date of payment are not noted on the billing stubs. Various utility records were missing, including monthly reports of customers billed, deposit reports, billing stubs, meter readings, and back up disks for the utility system. The City Collector does not clearly document reconciling items on deposit reports. Deposits are not made on a timely basis. The City Collector's monthly report submitted to the Board of Aldermen was sometimes inaccurate.

3. City Ordinances (pages 14-15)

City ordinances need to be better organized and updated. One ordinance passed by the Board of Aldermen did not receive the required number of votes.

4. Budgets, Financial Reporting and Auditing (pages 16-17)

The city's budget for the sewer fund was not in compliance with state law and the city did not budget other city funds. Prior to January 1999, the city did not publish semi-annual financial statements as required by state law. The city has not filed an annual report of financial activity with the State Auditor's office as required. The city has not obtained annual audits of the combined waterworks and sewerage system.

5. Board Meetings, Minutes, and Policies (pages 17-20)

Board minutes are not signed by the City Clerk or Mayor. The Board of Aldermen does not hold public hearings on the proposed tax rates or prepare ordinances establishing the annual tax rates. In addition, there is no documentation the city's tax levy, which exceeds the maximum established by state law, has ever been approved by a vote of the people. The minutes did not indicate the reasons for closing the November 2, 1998 meeting. In addition, some topics discussed in this closed meeting did not meet the criteria outlined by state law. The city has not formally established a policy regarding access to city records. Board minutes did not include sufficient detail of matters discussed and actions taken. The city has

not formally established a policy regarding when comments from the public will be allowed at board meetings.

6. Accounting Controls and Procedures (pages 20-24)

The Board of Aldermen does not adequately document its approval of disbursements. The city has not established a separate fund or accounting of some restricted revenues. Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of the work performed by the City Clerk/Treasurer. Checks and money orders are not restrictively endorsed immediately upon receipt. The city does not require the dog catcher to submit documentation from the city of Macon that the dogs were delivered prior to payment. Receipt records for licenses are not adequate. The City Collector, Mayor, and Mayor Pro-Tem are not bonded.

7. General Fixed Asset Records and Procedures (pages 24-25)

The city has not established formal policies and procedures for general fixed assets. The city does not tag or otherwise identify the general fixed assets as property of the city. The Board of Aldermen did not publicize or solicit bids for the proposed sale of city property. Daily usage logs are not maintained for the city vehicle.

CITY OF CALLAO, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Missing Funds</b>
-----------	----------------------

- A. The city of Callao operates a combined waterworks and sewerage system, and accepts cash, checks, and money orders for payment for water and sewer services. The City Collector is responsible for billing, receiving, recording, and depositing the monies collected. A review of receipt and deposit records indicated that at least \$5,561 of receipts was not deposited.

Receipt records indicated \$68,267 was received during the period of July 1997 through December 1998. However, corresponding deposit records indicate only \$62,706 was deposited, for a difference of \$5,561. The prior City Collector could provide no explanation.

Cash deposited averaged only four percent of total deposits from July 1997 to September 1998. However, in October 1998 after the city was notified of our upcoming audit, cash increased to ten percent of the total deposits. In addition, after September 1998, total deposits increased \$320 per month from an average of \$4,643 per month to \$4,963 per month.

In addition, we were unable to determine the total amount of monies collected and undeposited for some time periods because certain records were missing including monthly reports of customers billed, deposit reports, billing stubs, meter readings, and back up information from the computer. We, therefore, did not include these billings or deposits in our totals noted above. As a result, additional monies could be missing.

- B. The City Collector accepts cash, checks, and money orders for dog licenses. She assigns a number for each license issued. During the period January 1, 1998 through June 30, 1998, the prior City Collector issued 87 dog licenses at \$5 each for a total of \$435; however, only \$215 was deposited for dog licenses.

The differences went undetected throughout this time period due to numerous internal control weaknesses, little or no independent review, and a lack of adequate record keeping. See related Management Advisory Report (MAR) No. 2 for additional information concerning water and sewer receipts and No. 6F for additional information concerning license receipts. The City Collector who had primary responsibility for collecting and recording the receipts resigned her position on February 8, 1999.

**WE RECOMMEND** the Board of Aldermen review the situation and take necessary legal actions to recover any misappropriated monies, and work with law enforcement officials regarding any criminal prosecution.

### **AUDITEE'S RESPONSE**

*The Mayor will contact the City Attorney and determine a course of action based on his advice.*

<b>2. Water and Sewer System Procedures</b>
---

The city operates a combined waterworks and sewerage system that provides service to approximately 170 customers. The city purchases water from Macon County Public Water District Number Three in Macon, Missouri and sells it to city residents. Meters are read by a city employee by the twenty-fifth day of each month, customers are billed on the first day of the subsequent month, and payments are due by the twentieth day of the month. Also included in the billings are charges for sewer service. Our review of the city's billing and collection records and procedures revealed the following concerns:

- A. The city does not investigate large water losses reported on the City Collector's monthly report. The City Collector prepares monthly reports of the total number of gallons billed to customers, the total number of gallons purchased, and the total gallons lost; however, no one reviews this report for large water losses. During the year ended June 30, 1998, the City Collector reported a total of 1,102,470 gallons of water loss. The loss ranged from 7 to 22 percent per month. In addition, the city does not reconcile the number of gallons purchased to the number of gallons billed from their supplier.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should investigate significant differences between the number of gallons purchased and the number of gallons billed to customers and the number of gallons billed from the city's supplier. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- B. There is no oversight or adequate segregation of duties related to the city's utility system. The City Collector performs all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, depositing money received, monitoring accounts for delinquencies, and initiating service shutoff orders.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved,

at a minimum, there should be an independent review of the reconciliations between utility billings to payments recorded and payments deposited, and an independent review and approval of credit adjustments and delinquent account follow-up.

- C. The city collects refundable water meter deposits of \$100 (\$50 prior to May 1996), which are deposited into the water deposit account. The City Collector maintains a list of meter deposits collected and posts to this list when meter deposits are refunded or applied to final bills. The City Collector does not reconcile the meter deposit listing to the balance in the account. In addition, the City Collector indicated she sometimes holds a customer's meter deposit in the account after their service has been discontinued because the deposit is not adequate to cover their final bill.

The meter deposit listing should be reconciled to the balance in the bank account monthly to ensure records are in balance and all meter deposits are accounted for properly. The city should review the meter deposit listing to determine the actual liability for current water system customers and keep the listing properly updated by applying any deposits to outstanding bills when customers discontinue service.

- D. The city receives cash and checks for the payment of utility bills. The billing stubs which accompany the payment serve as the city's record of the receipt; however, the method (cash, check, money order, etc.) and date of payment are not noted on the billing stubs.

To ensure the proper handling and safeguarding of city monies, the method and date of payment should be indicated on the billing stubs and the composition of receipts reconciled to bank deposits.

- E. Various utility records were missing, including monthly reports of customers billed, deposit reports, billing stubs, meter readings, and back up disks for the utility system. Retention of city records is essential to establishing accountability for city financial activity and in demonstrating compliance with state law. Effective control of records requires all documents and records be safeguarded against loss due to fire or theft, be accessible to the appropriate city officials/employees, and upon reasonable request, be accessible to the public.

- F. The City Collector does not clearly document reconciling items on deposit reports. The City Collector records all payments to the city's computerized utility system and generates a deposit report which lists each payment recorded since the last deposit. These reports do not always agree to amounts deposited. In addition, the City Collector often marks though some of the payments listed without clearly documenting why these adjustments are necessary. The City Collector indicated she does not know how to make adjustments to the computer so to correct any problems she records a payment for the amount due.



To ensure all credit adjustments are valid and proper, someone independent of the receipting and recording functions should review all credit adjustments and proper supporting documentation should be maintained of such adjustments.

- G. Deposits are not made on a timely basis. During the year ended June 30, 1998, utility deposits were generally made three times a month, with deposits averaging approximately \$1,400.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, deposits should be made on a daily basis or when accumulated receipts exceed \$100.

- H. The City Collector's monthly report submitted to the Board of Aldermen was sometimes inaccurate. During our review of these reports, we noted the following concerns:

- \* Some monthly reports reviewed were not mathematically correct.
- \* The monthly reports include several receipt items in more than one sub-total, thus the sub-totals of monies received appear to total more than the amount deposited.
- \* Meter deposits were reflected on the monthly reports in different months than deposited.

No one at the city reconciles the City Collector's monthly reports to the amounts deposited. Accurate financial information is necessary to properly inform the city's residents and the Board of Aldermen of the utility amounts collected and deposited.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure the gallons billed to customers are reconciled to the gallons purchased, and require significant differences between the gallons billed to customers, the gallons purchased, and the gallons billed by the supplier be investigated.
- B. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility billings to payments deposited and payments recorded, and an independent review of and approval for credit adjustments and delinquent account follow-up.
- C. Require the City Collector to reconcile the meter deposit listing to the balance in this account each month. In addition, the City Collector should determine the amount of refundable meter deposits held for current customers and properly dispose of any meter deposits held for customers no longer receiving service.

- D. Require the City Collector to record the method and date of payment on corresponding billing stubs received and reconcile the composition of receipts to bank deposits.
- E. Ensure all records of the city are properly retained and available for review.
- F. Ensure someone independent of the utility system reviews and approves all credit adjustments and ensure adequate documentation is retained of such adjustments.
- G. Ensure deposits are made on a daily basis or when accumulated receipts exceed \$100.
- H. Ensure the City Collector's monthly reports accurately reflect utility amounts collected and deposited.

### **AUDITEE'S RESPONSE**

- A. *This recommendation had been partially implemented. The city had started reviewing large water losses and will develop a procedure to begin reconciling the gallons purchased to the number of gallons billed from the supplier.*
- B. *The Mayor or a member of the finance committee will begin performing an independent review of the collector's records on a monthly basis.*
- C. *This reconciliation has been done recently and the city will continue doing it on a regular basis. The city will transfer deposits held for customers no longer in service from the meter deposit account to the regular account.*
- D. *The City Collector will begin recording this information on the billing stubs.*
- E. *This recommendation has already been implemented. All city business is now conducted at city hall and not in officials' homes.*
- F. *The Mayor will begin doing this as part of the procedures for part B above.*
- G&H. *These recommendations have already been implemented.*

<b>3.</b>	<b>City Ordinances</b>
-----------	------------------------

- A. Improvement is needed in the organization of the city's ordinances. Several ordinances were missing from the official ordinance books and the following ordinances appear to be outdated:

- 1) City ordinance 306.95, dated May 8, 1995, established the annual salary of the City Clerk/Treasurer and the City Collector at \$1,380 each. The City Clerk/Treasurer and the City Collector were each paid \$3,000 for the year ended June 30, 1999. City personnel indicated the salary increases were approved by the board; however, the ordinance had not been updated.
- 2) City ordinance 324.98, dated March 16, 1998, indicated there would be no compensation for the position of City Marshall. City personnel indicated this was because the Marshall also served on the Board of Aldermen. In May 1998, the Board of Aldermen voted to pay the City Marshall \$8 per hour since he no longer served on the board; however, the ordinance has not been updated.
- 3) City ordinance 300.95, dated March 20, 1995, indicated the City Attorney was to be paid \$50 per hour. At least one invoice noted \$40 per case and another one noted \$60 per hour was charged. In addition, the Board of Aldermen voted to hire a new City Attorney in January 1999 at \$90 per hour; however, the ordinance has not been updated.

Since the ordinances represent the legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be maintained in a complete, well-organized, and up-to-date manner. An index of all ordinances passed and repealed by the city could help keep track of additions and changes made to the city ordinances. Section 79.290, RSMo, requires the board of aldermen to fix the salaries of all city employees by ordinance.

- B. Ordinance 326.98, which establishes authorization to access the city's bank records and deposit box, was passed by the Board of Aldermen without the proper number of votes. This ordinance passed with a vote of two yes and two abstentions. Section 79.130, RSMo 1994, requires ordinances to be approved by a majority of all the members of the board of aldermen. Thus, passage of an ordinance requires three favorable votes of the board, or in the case of a tie, the mayor can cast the third positive vote.

**WE RECOMMEND** the Board of Aldermen:

- A. Update the city's ordinances including compensation of city officials and ensure a complete set of ordinances is maintained.
- B. Ensure the required number of positive votes is received for the passage of ordinances.

#### **AUDITEE'S RESPONSE**

- A. *The city is currently reviewing the possibility of codifying the city ordinances.*

B. *The city will implement this recommendation.*

<b>4. Budgets, Financial Reporting and Auditing</b>
---

- A. The city's budgets for the years ended June 30, 1999 and 1998 were not complete and were prepared for only the Sewer Fund. Budgets were not prepared for the General Fund, the General Obligation Fund, the Debt Service Fund, the Repair and Replacement Fund, or the Water Deposit Fund.

In addition, the Sewer Fund budget did not include a budget message, the actual and estimated cash and resources available at the beginning and end of the year, respectively, or actual disbursements for the previous two fiscal years. The city presented actual disbursements for only the prior fiscal year.

Sections 67.010 to 67.080, RSMo 1994, set specific guidelines for the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget could also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include the beginning available resources and reasonable estimates of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding fiscal years.

- B. Prior to 1999, the city did not publish semi-annual financial statements as required by law. In addition, while the city published a semi-annual financial statement in January 1999, the published financial statement did not include detailed information but only presented total revenues, expenses, and beginning and ending balances for each fund. In addition, the published financial statement did not report any indebtedness, even though the city had \$135,000 in general obligation bonds outstanding at December 31, 1998.

Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish, semi-annually, a full and detailed account of the receipts, expenditures, and indebtedness of the city. The publication of such financial statements is intended to provide information to citizens regarding the financial activity and condition of the city.

- C. The city has not filed an annual report of financial activity with the State Auditor's office since 1989. Section 105.145, RSMo 1994, requires the city to file a financial report with the State Auditor's office annually.
- D. The city has not obtained annual audits. The city's bond covenants require annual audits of the combined waterworks and sewerage system. In addition, Section 250.150, RSMo 1994, requires the city to obtain annual audits of the combined waterworks and sewerage

system, and the cost of the audit is to be paid from the revenues received from the system. During the year ended June 30, 1995, the city entered into federal and state grant agreements for a combined waterworks and sewerage project. The grant agreements required the city to obtain an audit of these funds. Because no audit was obtained, the agencies involved indicated the city is not currently qualified to receive any additional grant monies from these agencies.

In addition to being required by the bond covenants and state law, annual audits of city funds would help ensure city financial transactions have been properly recorded. An audit of combined waterworks and the sewerage project would enable the city to qualify for additional grants in the future.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare annual budgets, for all funds and include all information required by state law.
- B. Ensure complete financial statements are published semi-annually and include detail as required by state law.
- C. File annual financial reports with the State Auditor's office as required by state law.
- D. Obtain annual audits of city funds.

**AUDITEE'S RESPONSE**

- A. *The city prepared budgets for all city funds for the year ending June 30, 2000.*
- B. *The city did publish detailed financial statements for the six months ended June 30, 1999, and will include outstanding debt in the future.*
- C. *A financial report will be filed for the year ended June 30, 1999.*
- D. *An audit will be obtained.*

<b>5. Board Meetings, Minutes, and Policies</b>
---

- A. Board meeting minutes are prepared by the City Clerk; however, they are not signed by the City Clerk or Mayor. The minutes should be prepared and signed by the City Clerk and approved by the board and signed by the Mayor immediately upon approval to provide an attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

- B. The city's \$1.85 property tax rate for 1998 exceeded the maximum authorized by state statutes. Section 94.250, RSMo 1994, provides that a city's tax levy shall not exceed one dollar for general municipal purposes except by a two-thirds vote, and only for 30 cents for a period of four years at a time. There is no documentation the additional levy (above one dollar) has ever been approved by a vote of the people. The property tax rate has been in excess of \$1.00 for several years. The additional levy resulted in excess property taxes of approximately \$6,000 being levied in 1998. The city should review this situation with legal counsel and set the tax rate in compliance with state law. Voter approval is required for any tax rate above one dollar.

In addition, the Board of Aldermen does not hold a public hearing on the proposed tax rates or prepare ordinances establishing the annual tax rates. Section 67.110, RSMo 1994, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. Section 94.190.3 RSMo 1994, requires that tax rates be established by ordinance.

- C. The minutes did not indicate the reasons for closing the November 2, 1998, meeting and the related vote for closing the meeting. Section 610.022, RSMo, requires that before the meeting may be closed, the question of holding the closed meeting shall be voted on at open session. The vote and the specific reason listed in Chapter 610 for holding the closed meeting should be entered into the minutes.

In addition, some topics discussed in this closed meeting do not appear to meet the criteria outlined in Section 610.021, RSMo. This section allows topics such as litigation; leasing, purchase or sale of real estate; and hiring, firing, disciplining or promoting an employee to be discussed during a closed meeting. However, the board passed ordinances combining the positions of clerk and treasurer and establishing access to city records. The board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes.

- D. The city has not formally established a policy regarding access to city records. The city also has not formally established the rates to be charged for copies of city records. Section 610.023, RSMo, indicates that each public governmental body is to appoint a custodian to be responsible for the maintenance of that body's records and establishes guidelines for making city records available to the public. To ensure compliance with state law, the city should adopt formal policies regarding the location of city records, the persons responsible for maintaining each record, and procedures for citizens to request access to public records and how the city will handle these requests. Section 610.026, RSMo, allows the city to set reasonable fees for providing access to or furnishing copies of public records, not to exceed the actual cost of document search and duplication.

- E. Board minutes did not always include sufficient detail of matters discussed and actions taken. During our review of board minutes we noted the following concerns:

- 1) November 1996, the Board of Aldermen voted on the appointment of a City Clerk/Treasurer. The board minutes indicate that Miona Denny (daughter of Alderman Miles ) was appointed as the City Clerk/Treasurer with 3 aye votes and no nay votes. These minutes indicate Alderman Lawrence Taylor, Alderman Evelyn Miles, Alderman William Mott, and Mayor Jerry Brown were present at this meeting; thus it would appear Alderman Miles voted to appoint her daughter as City Clerk/Treasurer. However, the board members indicated these minutes are incorrect. They indicated Alderman Hazel Mott was also present at this meeting and Alderman Evelyn Miles abstained from voting on this appointment.

In May 1998, the Board of Alderman voted to increase the salary of the City Clerk/Treasurer. The board minutes simply indicate this motion passed. The minutes do not record the vote taken or note any abstentions.

- 2) Board minutes did not include documentation of the reappointment each year of the appointed officials. City ordinance establishes a one year term of office for the appointed officials; however, many of the officials served for several years.
- 3) The minutes did not contain some information required by statute. There were several instances where the minutes indicated a motion had passed, but did not indicate the number of votes for and against.

Section 610.020, RSMo, states that the minutes shall include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate minutes provide an official record of board actions and decisions. In addition, discussions and decisions concerning appointments where nepotism or a potential conflict of interest exists should be clearly documented so that the public has assurance that no city official agent has acted improperly. Board members should abstain from voting when a relative's employment or appointment is involved, and their abstention should be clearly documented in the minutes.

- F. The city has not formally established a policy regarding the procedures for public comment at board meetings. It appears such a policy may be necessary, because during the last several months, the Board of Aldermen has been unable to conduct city business due the inability to control public comments at the meetings. Currently, the citizens are allowed to comment on city business throughout the board meeting, without time limit.

**WE RECOMMEND** the Board of Aldermen:

- A. Require the City Clerk and Mayor to sign the board minutes to attest to the accuracy and completeness.

- B. Comply with state statutes when setting future tax levies, hold public hearings on proposed property tax rates and establish the tax rates by ordinance, as required by state law.
- C. Conduct all closed meetings and record all public votes in compliance with statutory provisions and ensure documentation (meeting minutes) is adequate to demonstrate compliance with state laws.
- D. Develop a written policy regarding procedures to obtain access to, or copies of, public city records.
- E. Ensure minutes are complete and include all information required by statute. Such documentation is particularly important when an issue includes the appointment of relatives of certain board members.
- F. Consider establishing a written policy regarding public comment procedures at board meetings.

#### **AUDITEE'S RESPONSE**

- A. *The Mayor and the City Clerk will sign the minutes.*
- B. *The city will review this with its city attorney. The city has set up a special meeting to establish the tax rate for 1999, and did pass an ordinance to establish the 1998 tax rate at the March 1999 meeting.*
- C&E. *The city has already implemented these recommendations.*
- D. *The Mayor will establish a policy appointing a record custodian and develop a written procedure to be posted for the public on access to public records including the costs to be charged for copies.*
- F. *The city has established a formal policy to allow for public comment at the board meetings.*

<b>6.</b>	<b>Accounting Controls and Procedures</b>
-----------	---

- A. Although there is an occasional reference to a specific invoice being approved for payment, the board minutes usually only make a general reference that invoices are approved for payment. Invoices for bills are retained in the monthly files, but these invoices are not signed or initialed by the board members, and a listing of all disbursements approved for payment by the board is not prepared to accompany the minutes.



To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the board members to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the Board of Aldermen before payment is made to ensure all disbursements represent valid operating costs of the city.

B. The city has not established a separate fund or accounting of some restricted revenues.

1. During the year ended June 30, 1998, the city received \$12,945 in motor vehicle-related revenues from the state. The city deposits these revenues into the general fund and a separate accounting for the revenues and related expenditures has not been established.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes. To ensure compliance with the Missouri Constitution the city should establish a separate accounting of restricted revenues and ensure these revenues are used only for appropriate purposes.

2. During the year ended June 30, 1998, the city deposited \$36,159 in water user fees into the general fund. The bond covenants require the revenues from the combined waterworks and sewerage system be deposited into a separate revenue fund. Currently, the city deposits only the revenues from the sewer system into this fund.

To comply with the bond covenants and to assist the city in establishing reasonable and sufficient water rates, the city should establish a separate accounting of the waterworks and sewerage system and ensure these revenues are used only for associated costs.

In addition, the bond covenants require the establishment of a Combined Waterworks and Sewerage System Surplus Account and an Operation and Maintenance Account. These accounts have not been established by the city.

As a result of the above two items, the city does not know how much of the \$55,792 balance in its general fund, as of June 30, 1998, was generated from the city's street or water operations.

C. With the exception of the city's utility records, the City Clerk/Treasurer is responsible for essentially all record keeping duties of the city. These duties include receiving and depositing monies, preparing invoices for payment, signing checks, performing bank reconciliations, and preparing financial reports.

Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of the work performed by the City Clerk/Treasurer.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. Holding two of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating duties to the extent possible. In addition, the board should require someone independent of the cash custody and record keeping functions to perform periodic reconciliations of receipts to deposits and checks issued to disbursement records, and review bank statements and bank reconciliations.

- D. Checks and money orders received are not restrictively endorsed immediately upon receipt. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- E. The city pays a dog catcher \$10 for each dog delivered to the city of Macon for impoundment. The dog catcher notifies the City Clerk/Treasurer of the number of dogs delivered to receive payment. The city does not require him to submit documentation from the city of Macon that the dogs were delivered. The city of Macon subsequently bills the city for each dog impounded. During the year ended June 30, 1998, it appears the dog catcher claimed 17 dogs for payment; however, the city of Macon billed the city for only 13 impoundments. The city of Macon sends a copy of a signed receipt for the dogs delivered with their invoice. City personnel should require a copy of this receipt be submitted by the dog catcher for payment.
- F. Licenses issued by the city are not prenumbered by the printer. In addition, the City Collector does not issue receipt slips or record individual receipts for licenses on a receipt ledger. The City Collector consecutively hand-numbers the pet licenses by writing the dog tag number on each license form; however, numbers are not assigned to merchant licenses. The City Collector does not maintain any type of record of individual merchants licenses issued.

To properly account for all receipts, prenumbered receipt slips should be issued or receipts should be recorded on a ledger immediately upon receipt. The method of payment received (cash, check, or money order) should be noted on the receipt slips or ledger. To

ensure all receipts are deposited, the City Collector should reconcile receipt slips or ledger amounts, including the composition of receipts, to amounts deposited. To provide additional assurance all monies are properly collected, recorded, and deposited, licenses and permits should be prenumbered and the numerical sequence should be accounted for properly. The related receipt slips and monies recorded and deposited should be reconciled to the documents issued.

- G. The City Collector collects money, but is not bonded. In addition, the Mayor and Mayor pro-tem are authorized to sign checks but are not bonded. Failure to properly bond city officials exposes the city to an unnecessary risk of loss.

The city should base its bond coverage on the money an official has access to at any one time, the cost of increased bond coverage, and the level of risk the Board of Aldermen is willing to assume.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes.
- B. Establish funds as required and separately account for restricted revenues to ensure monies are spent in accordance with applicable laws and regulations. In addition, the board needs to determine the amounts of its current cash balance which should be reserved for street and water operations, respectively.
- C. Consider appointing separate individuals to the positions of City Clerk and City Treasurer and provide for adequate segregation of duties. If this is not possible, an independent review of the related records and activity should be performed periodically.
- D. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- E. Require signed receipt slips from the city of Macon before paying the dog catcher for impoundments.
- F. Ensure the City Collector issues prenumbered receipt slips or maintains a receipt ledger and reconciles amounts received to amounts deposited. In addition, the Board of Aldermen should require all licenses to be prenumbered and the numerical sequence accounted for properly.
- G. Consider obtaining bond coverage for all city officials with access to city funds.

**AUDITEE'S RESPONSE**

- A. *The board now signs a list of the bills approved for payment.*
- B. *The city will review setting up a separate accounting for these monies.*
- C. *Each board member is given copies of the bank reconciliation each month. The city will develop additional review procedures.*
- D. *The city has already implemented this recommendation.*
- E. *The city no longer has dog catchers.*
- F. *The recommendation will be implemented.*
- G. *The current collector is bonded. The city will look into additional bond coverage.*

<b>7.</b>	<b>General Fixed Asset Records and Procedures</b>
-----------	---

- A. The city has not established formal policies and procedures for general fixed assets, including procedures for the annual physical inventory of the city's general fixed assets. In addition, the city does not maintain property records to account for general fixed assets owned by the city.

Adequate general fixed asset records are necessary to provide better controls over city property and provide a basis for proper financial reporting. Formal policies and procedures for the annual physical inventory are necessary to ensure all personnel understand the duties assigned to them.

- B. The city does not tag or otherwise identify the general fixed assets as property of the city. Properly tagged items help assure the city that all fixed assets are included on the fixed asset records, and are identified as belonging to the city of Callao.
- C. During the year ended June 30, 1998, the Board of Aldermen voted twice to sell various pieces of city equipment to an interested buyer without publicizing or soliciting bids. Although the Board of Aldermen indicated that in both of these instances the sales were not completed, the board should publicize or solicit bids to ensure the best price is obtained for property sold. Documentation of bids received should be maintained.
- D. The city has one car which is driven by the City Marshall. Daily usage logs are not maintained for this vehicle.

Logs should be maintained indicating the purpose and destination of each trip, the beginning and ending odometer readings, and the operation and maintenance costs. The

log should be reviewed by the Board of Aldermen to help ensure there is no inappropriate personal use of the city's vehicle, verify the propriety of fuel and/or repair billings, and identify the need to replace the vehicle due to excessive maintenance costs.

**WE RECOMMEND** the Board of Aldermen:

- A. Develop formal policies and procedures regarding general fixed asset records including an annual physical inventory of general fixed assets. In addition, general fixed asset records should be established.
- B. Properly tag, number, or otherwise identify all city property.
- C. Solicit bids for all city equipment sold.
- D. Require daily usage logs be maintained for the city vehicle and perform a periodic review of the logs.

**AUDITEE'S RESPONSE**

- A. *General fixed asset procedures will be developed.*
- B. *All property items will be tagged.*
- C. *Bids are now being obtained for the sale of city equipment.*
- D. *The Mayor will discuss this with the City Marshall.*

This report was intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.